



# 10 Steps to Homeownership

From the National Association of REALTORS ([www.realtor.org](http://www.realtor.org))

## Step 1: Are You Ready?

Knowledge and experience are the keys to successful real estate transactions. REALTOR.com® contains an enormous amount of valuable information, and such data — combined with the expertise, experience and training of local REALTORS® — can be the essential keys to your success.

One of the keys to making the home-buying process easier and more understandable is planning. In doing so, you'll be able to anticipate requests from lenders, lawyers and a host of other professionals. Furthermore, planning will help you discover valuable shortcuts in the home-buying process.

### **Do You Know What You Want?**

Whether you are a first-time home buyer or entering the marketplace as a repeat buyer, you need to ask why you want to buy. Are you planning to move to a new community due to a lifestyle change or is buying an option and not a requirement? What would you like in terms of real estate that you do not now have? Do you have a purchasing timeframe?

Whatever your answers, the more you know about the real estate marketplace, the more likely you are to effectively define your goals. As an interesting exercise, it can be worthwhile to look at the questions above and to then discuss them in detail when meeting with local REALTORS®.

### **Do You Have The Money?**

Homes and financing are closely intertwined. (Financing is the difference between the purchase price and the down payment, commonly referred to as debt or the mortgage.) The good news is that over the years new and innovative loan programs have evolved which require a 5 percent down payment or less. In fact, a number of programs now allow purchasers to buy real estate with nothing down.

In addition to a down payment, purchasers also need cash for closing costs (the final costs associated with closing the loan). Several newly emerging loan programs not only allow the purchase of a home with no money down, but also underwrite closing costs.

Not everyone, however, elects to purchase with little or no money down. Less money down means higher monthly mortgage payments, so most home buyers choose to buy with some cash up front.

As to closing costs, in markets where buyers have leverage, it may be possible to negotiate an offer for a home that requires the owner to pay some or all of your settlement expenses. Speak with local REALTORS® for details.

### **Is Your Financial House in Order?**

Those great loans with little or nothing down are not available to everyone: You need good credit. For at least one year prior to purchasing a home, you should assure that every credit card bill, rent check, car payment and other debt is paid in full and on time.

## **Step 2: Get a Realtor**

More than 2 million people in the United States have earned real estate licenses. However, real estate is a tough business with a steep dropout rate, and the result is that only a small percentage of those with licenses actively help buyers and sellers.

The National Association of REALTORS® (NAR) includes 1 million brokers and salespeople, individuals bound together with a strong Code of Ethics, extensive training opportunities and a wealth of community information. NAR members are routinely active in PTAs, local government committees and a variety of neighborhood organizations. Being actively involved in community affairs provides REALTORS® with a better understanding of the area in which they are selling.

### **Why?**

Buying and selling real estate is a complex matter. At first it might seem that by checking local picture books or online sites you could quickly find the right home at the right price.

But a basic rule in real estate is that all properties are unique. No two properties — even two identical models on the same street — are precisely and exactly alike. Homes differ and so do contract terms, financing options, inspection requirements and closing costs. Also, no two transactions are alike.

In this maze of forms, financing, inspections, marketing, pricing and negotiating, it makes sense to work with professionals who know the community and much more. Those professionals are the local REALTORS® who serve your area.

### **How do you choose?**

In every community you're likely to find a number of realty brokerages. Because there is heated competition, local REALTORS® must fight hard to succeed in your community.

The best place to find a local REALTOR® is from REALTOR.com's® extensive listing of community professionals and properties. Other sources include open houses, local advertising, Web sites, referrals from other REALTORS®, recommendations from neighbors and suggestions from lenders, attorneys, financial planners and CPAs. The experiences and recommendations of past clients can be invaluable.

In many cases buyers will interview several REALTORS® before selecting one professional with whom to work. These interviews represent a good opportunity to consider such issues as training, experience, representation and professional certifications.



### **What should you expect when you work with a REALTOR®?**

Once you select a REALTOR® you will want to establish a proper business relationship. You likely know that some REALTORS® represent sellers while others represent buyers. Each REALTOR® will explain the options available, describe how he or she typically works with individuals and provide you with complete agency disclosures (the ins and outs of your relationship with the agent) as required in your state.

Once hired for the job, the REALTOR® will provide you with information detailing current market conditions, financing options and negotiating issues that might apply to a given situation. Remember: Because market conditions can change and the strategies that apply in one negotiation may be inappropriate in another, this information should not be set in stone. During your time in the marketplace REALTORS® will keep you updated and alert you to each step in the transaction process.

## **Step 3: Get Loan Pre-approval**

Few people can buy a home for cash. According to the National Association of REALTORS® (NAR), nearly nine out of 10 buyers finance their purchase, which means that virtually all buyers — especially first-time purchasers — required a loan.

The real issue with real estate financing is not getting a loan (virtually anyone willing to pay lofty interest rates can find a mortgage). Instead, the idea is to get the loan that's right for you — the mortgage with the lowest cost and best terms.

REALTORS® routinely suggest that consumers start the mortgage process well before bidding on a home. Many lenders (the sources of money) and programs, for example, are available right here in the finance section of Realtor.com as well as through recommendations from local REALTORS®. By meeting with lenders — either online or face to face — and looking at loan options, you will find which programs best meet your needs and how much you can afford.

REALTORS® also recommend pre approvals for another reason: Purchase forms often require buyers to apply for financing within a given time period, in many cases, seven to 10 days. By meeting with loan officers in advance and identifying mortgage programs, it won't be necessary to quickly find a lender, check credit, and rush into a financing decision that may not be the best option.

### **What is it?**

"Pre-approval" means you have met with a loan officer, your credit files have been reviewed and the loan officer believes you can readily qualify for a given loan amount with one or more specific mortgage programs. Based on this information, the lender will provide a pre approval letter, which shows your borrowing power. You can visit as many lenders as you like and get several pre-approvals, but keep in mind that each one carries with it a new credit check, which will show up on future credit reports.



Although not a final loan commitment, the pre approval letter can be shown to listing brokers when bidding on a home. It demonstrates your financial strength and shows that you have the ability to go through with a purchase. This information is important to owners since they do not want to accept an offer that is likely to fail because financing cannot be obtained.

### **How do you get pre-approval?**

Real estate financing is available from numerous sources, including lenders here in the finance section of Realtor.com, mortgage companies that have worked with local REALTORS® and in some cases, individual REALTORS® themselves. Based on his or her experience, the REALTOR® may suggest one or more lenders with a history of offering competitive programs and delivering promised rates and terms.

The loan officer will carefully review your financial situation, including your credit report and other information. The lender will then suggest programs which most-closely meet your needs. For instance, a first-time buyer may qualify for state-backed mortgage programs with little money down and low interest rates, while a repeat purchaser (someone who has bought a home before) with more equity (money invested in the home) might want to get a 15-year loan and the lower overall interest costs it represents. Typically, first-time buyers opt for the traditional 30-year loan, with either a floating interest rate or a fixed rate of interest over the life of the loan.

## **Step 4: Look at Homes**

Millions of new and existing homes are sold each year. There's no shortage of housing options, but with so many choices the challenge becomes finding the property which best meets your needs.

The housing market is complicated because the stock of homes for sale is always in flux. If it were possible to have a complete list of every home for sale at this very moment in a given community, such a list would become obsolete within seconds as new homes become available and properties now for sale are put under contract.

In effect, buyers are looking at a moving target in a marketplace that is never static. Because of this, it is important to know as much as possible about the choices in preferred markets, and the way to do that is by working closely with a local REALTOR® who has a good lay of the land.

### **What are you looking for?**

A home is more than just a collection of bedrooms and bathrooms. Several properties — each with four bedrooms, three baths, and the same price — may well represent radically different designs, commuting distances, lot sizes, tax costs, interior dimensions, and exterior finishes.

Each of us is different and so it's important to list the features and benefits you want in a home. Consider such things as pricing, location, size, amenities (extras such as a pool or extra-large kitchen) and design (one floor or two, colonial or modern, etc.).



Next, it's important to consider your priorities. If you can't get a home at your price with all the features you want, then what features are most important? For instance, would you trade fewer bedrooms for a larger kitchen? A longer commute for a bigger lot and lower cost?

Lastly, consider your needs in several years. If you'll need a larger home, maybe now is the time to buy a bigger house rather than moving or expanding in the future. If you expect your income to increase, perhaps you should consider a more expensive home financed with a loan program where monthly payments increase in the future.

### **Where should you look?**

All neighborhoods and communities have a special nature that gives them identity and value. One community may be well known for historic homes while another offers both suburban living as well as easy access to downtown office areas.

REALTOR.com® offers millions of homes online. By any standard, it's the largest source for property information, online or off. You can look at homes to contact listing brokers, and you can also search Realtor.com® to find brokers who offer buyer representation services.

### **How do you find a house?**

Some buyers like to search REALTOR.com® by looking at listings on the basis of location or price; others prefer to have local REALTORS® suggest properties; and many buyers prefer both approaches.

Regardless of your choice, it's important to target your search. By using basic measures such as general location and affordability, you can refine your search and focus on homes that offer the most desirable features.

As a guide, you should maintain a file with information on each of the homes you like. You can print out listing pages from REALTOR.com® and then make notes for each one — what you like, questions, REALTOR® contact data, etc.

## **Step 5: Choose a Home**

There's no doubt that choosing a home is a big decision and you want to do it right.

As a buyer, here's what actually happens. A home has been placed on the market for which the seller has established an asking price as well as other terms. In effect, this is an offer. At this point, you have three choices: accept the seller's offer and create a contract; reject it and not make an offer; or suggest different terms and make a counter-offer. If you choose this last option, the seller may accept, reject or make a counter-offer.



No aspect of the home buying process is more complex, personal or variable than bargaining between buyers and sellers. This is the point where the value of an experienced REALTOR® is clearly evident because he or she knows the community, has seen numerous homes for sale, knows local values and has spent years negotiating realty transactions.

### **Is it THE house?**

A house is shelter, but a home is far more. It's where you live, relax, entertain friends, raise families, and work. A home is where you spend much of your life, and so choosing a house is an enormous decision.

How do you know if a house is THE one? Probably the best approach is to look at as many homes as possible, something made easy by Realtor.com, where you can quickly and easily view huge numbers of homes, check prices, take video tours and view extensive neighborhood information. Once your choices have been narrowed, you can then contact a local REALTOR® to find specific information and options.

### **Can you really afford it?**

Remember Step 2 , the pre-approval process? Getting pre-approved means you have a very good idea of how much you can borrow, what loan programs will most likely work best in your situation and how much home you can afford.

How reliable is a pre-approval? While pre-approval is not a loan commitment, it's still necessary for lenders to check such items as appraisals and the latest credit reports. Despite fluctuating interest rates, pre-approval nonetheless provides a reasoned, careful analysis of what you can afford. After all, loan officers are routinely paid only when loans are originated. It doesn't make much sense for loan officers to suggest high loan limits that later can't be delivered.

## **Step 6: Get Funding**

Often the cost of real estate financing is routinely greater than the original purchase price of a home (after including interest and closing costs). Because financing is so important, buyers should have as much information as possible regarding mortgage options and costs.

Realtor.com® provides consumers with extensive mortgage information as well as a variety of loan calculators. Local REALTORS® can provide mortgage information, discuss financing options and recommend loan sources. In addition, some REALTORS® also originate loans.

### **What kind of loan?**

There are thousands of loans available out there from a variety of lenders, but in general, the mortgage you choose will likely be determined by at least several key factors:

- How much down? Loans with 5 percent down or less are available — in fact, loans from major lenders with no money down have appeared in recent years.



- If you place less than 20 percent down, lenders will want the mortgage guaranteed by an outside third party such as the Veterans Administration (VA), the Federal Housing Administration (FHA) or a private mortgage insurer (PMI, or private mortgage insurance, is required by lender to protect against any mortgage defaults). Millions of VA, FHA and PMI loans are generated each year.
- How's your credit? The best rates and terms are only available to those with solid credit. To get the best loans, make a point of paying credit cards, installment payments, rent and mortgage bills in full and on time.
- Are you a first-time buyer? It might seem that "first-time buyer" means someone who has never owned property before, but under most state programs, the term refers to those who have not owned property within the past three years. State-backed first-timer programs often feature smaller downpayments and below-market interest rates. For details, speak with your local REALTOR®.

### **How do you get a loan?**

To obtain a loan you must complete a written loan application and provide supporting documentation. Specific documents include recent pay stubs, rental checks and tax returns for the past two or three years if you are self-employed. During the prequalification procedure, the loan officer will describe the type of paperwork required.

### **Where do you get a loan?**

Mortgage financing can be obtained from mortgage bankers, mortgage brokers, savings and loan associations, mutual savings banks, commercial banks, credit unions, and insurance companies. A growing number of REALTORS® can also arrange financing.

## **Step 7: Make an Offer**

REALTOR® groups, working with legal counsel, have developed forms that are appropriate for realty transactions in specific communities. Such documents include numerous sale conditions and their wording should be carefully reviewed to assure that they reflect the terms you want to offer.

REALTORS® can explain the general contracting process in your community as well as his or her role.

While much attention is spent on offering prices, a proposal to buy includes both the price and terms. In some cases, terms can represent thousands of dollars in additional value for buyers — or additional costs. Terms are extremely important and should be carefully reviewed.

### **How much?**

You sometimes hear that the amount of your offer should be x percent below the seller's asking price or y percent less than you're really willing to pay. In practice, the offer depends on the basic laws of supply



and demand: If many buyers are competing for homes, then sellers will likely get full-price offers and sometimes even more. If demand is weak, then offers below the asking price may be in order.

### **How do you make an offer?**

The process of making offers varies around the country. In a typical situation, you will complete an offer that the REALTOR® will present to the owner and the owner's representative. The owner, in turn, may accept the offer, reject it or make a counter-offer.

Because counter-offers are common (any change in an offer can be considered a "counter-offer"), it's important for buyers to remain in close contact with REALTORS® during the negotiation process so that any proposed changes can be quickly reviewed.

### **How many inspections?**

A number of inspections are common in residential realty transactions. They include checks for termites, surveys to determine boundaries, appraisals to determine value for lenders, title reviews and structural inspections.

Structural inspections are particularly important. During these examinations, an inspector comes to the property to determine if there are material physical defects and whether expensive repairs and replacements are likely to be required in the next few years. Such inspections for a single-family home often require two or three hours, and buyers should attend. This is an opportunity to examine the property's mechanics and structure, ask questions and learn far more about the property than is possible with an informal walk-through.

## **Step 8: Get Insurance**

No one would drive a car without insurance, so it figures that no homeowner should be without insurance.

The essential idea behind various forms of real estate insurance is to protect owners in the event of catastrophe. If something goes wrong, insurance can be the bargain of a lifetime.

### **What kind and how much?**

There are various forms of insurance associated with home ownership, including these major types:

**Title insurance:** Purchased with a one-time fee at closing, title insurance protects owners in the event that title to the property is found to be invalid. Coverage includes "lenders" policies, which protect buyers up to the mortgage value of the property, and "owners" coverage, which protects owners up to the purchase price. In other words, "owners" coverage protects both the mortgage amount and the value of the down payment.



**Homeowners' insurance:** Homeowner's insurance provides fire, theft and liability coverage. Homeowners' policies are required by lenders and often cover a surprising number of items, including in some cases such property as wedding rings, furniture and home office equipment.

**Flood insurance:** Generally required in high-risk flood-prone areas, this insurance is issued by the federal government and provides as much as \$250,000 in coverage for a single-family home plus \$100,000 for contents. Local REALTORS® can explain which locations require such coverage.

**Home warranties:** With new homes, buyers want assurance that if something goes wrong after completion the builder will be there to make repairs. But what if the builder refuses to do the work or goes out of business?

Home warranties bought from third parties by home builders are generally designed to provide several forms of protection: workmanship for the first year, mechanical problems such as plumbing and wiring for the first two years, and structural defects for up to 10 years.

Home warranties for existing homes are typically one-year service agreements purchased by sellers. In the event of a covered defect or breakdown, the warranty firm will step in and make the repair or cover its cost.

Insurance policies and warranties have limitations and individual programs have different levels of coverage, deductibles and costs. For details, speak with REALTORS®, insurance brokers and home builders.

**Where to look.**

REALTORS® often provide home insurance and such policies are also available from insurance brokers.

**How do you get insurance?**

The time to obtain insurance and warranty coverage is at closing, so speak with a REALTOR® or insurance broker prior to closing. Be sure to ask about limitations, costs, deductibles and "endorsements" (additional forms of coverage that may be available).

## Step 9: Closing

Go to any local courthouse and you can find property records detailing real estate ownership in your community — sometimes records that date back hundreds of years.

These records are important because they provide today's owners with proof that they have good, marketable and insurable title to the property they are selling. Equally important, such records enable buyers to provide proof of ownership when they sell.



The closing process, which in different parts of the country is also known as "settlement" or "escrow," is increasingly computerized and automated. In many cases, buyers and sellers don't need to attend a specific event; signed paperwork can be sent to the closing agent via overnight delivery.

In practice, closings bring together a variety of parties who are part of the "transaction" process. For example, while the history of property ownership has been checked, it's possible that the records contain errors, unrecorded claims or flaws in the review itself, thus title insurance is necessary. At closing, transfer taxes must be paid and other claims must also be settled (including closing costs, legal fees and adjustments). In most transactions, the closing agent also completes the paperwork needed to record the loan.

### **What to expect**

Settlement is a brief process where all of the necessary paperwork needed to complete the transaction is signed. Closing is typically held in an office setting, sometimes with both buyer and seller at the same table, sometimes with each party completing their papers separately.

Whatever the case, the result is that title to the property is transferred from seller to buyer. The buyer receives the keys and the seller receives payment for the home. From the amount credited to the seller, the closing agent subtracts money to pay off the existing mortgage and other transaction costs. Deeds, loan papers, and other documents are prepared, signed and filed with local property record offices.

### **What you need to do**

One of the best parts of settlement is that buyers and sellers need to do very little.

Before closing, buyers typically have a final opportunity to walk through the property to assure that its condition has not materially changed since the sale agreement was signed. At closing itself, all papers have been prepared by closing agents, title companies, lenders and lawyers. This paperwork reflects the sale agreement and allows all parties to the transaction to verify their interests. For instance, buyers get the title to the property, lenders have their loans recorded in the public records and state governments collect their transfer taxes.

## **Step 10: What's Next?**

You've done it. You've looked at properties, made an offer, obtained financing and gone to closing. The home is yours. Is there any more to the home buying process?

Whether you're a first-time buyer or a repeat buyer, there are several more steps you'll want to take.

Those papers you received at settlement are extremely valuable, so hold on to them! In the short-term they can help establish tax deductions for the year in which the property was purchased. In the future,



such papers will be important for tax purposes when the property is sold, and in some cases, for calculating estate taxes.

Also at closing, determine the status of the utilities required by the home, items such as water, sewage, gas, electric and oil service. You want utility bills to be paid in full by owners as of closing and you also want services transferred to your name for billing. Usually such transfers can be done without turning off utilities. REALTORS® can provide contact numbers and related information.

About two weeks after closing, contact your local property records office and confirm that your deed has been officially recorded. Such records are public notices that show your interest in the property.

### **Moving in**

It is generally understood that sellers will leave homes "broom clean" when moving out. This expression does not mean "vacuumed" or "spotless." Broom clean makes sense because it means the house is ready to be painted and cleaned.

### **Your home, your money**

For most owners a home is the largest single asset they hold, so it makes sense to protect that asset.

Many owners make a photo or video record of the home and their possessions for insurance purposes and then keep the records in a safety deposit box. Your insurance provider can recommend what to photograph and how to secure it.

You want to maintain fire, theft and liability insurance. As the value of your property increases such coverage should also rise. Again, speak with your insurance professional for details.

Lastly, enjoy your home. Owning real estate involves contracts, loans, and taxes, but ultimately what's most important is that home ownership should be a wonderful experience. Enjoy!

